RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**
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May 13, 1977 **LETTER 697**

April 29, DJIA 926.90; PTI 822; A-D Ratio −20.18
May 6, DJIA 936.74; PTI 842; A-D Ratio −19.48

DOW THEORY: For eight frustrating months the D-J Industrial Average has been telling us one story—while the D-J Transportation Average has been telling us another. Which story is the correct one? I'm hoping the Transports tale is the right one, because a glance at the carrier average on the chart below will show you a lovely, bullish pattern. Transports hit a low of 203.85 last October 12. They rallied to a bull market high, then declined to a higher bottom of 221.81 on February 25. A third (still higher) bottom was established on April 6 at 222.78. Next, after rallying to a new bull market peak of 240.36 on April 26, Transports recorded a fourth (still higher) bottom at 230.77. Now there's nothing wrong with that action, nothing at all.

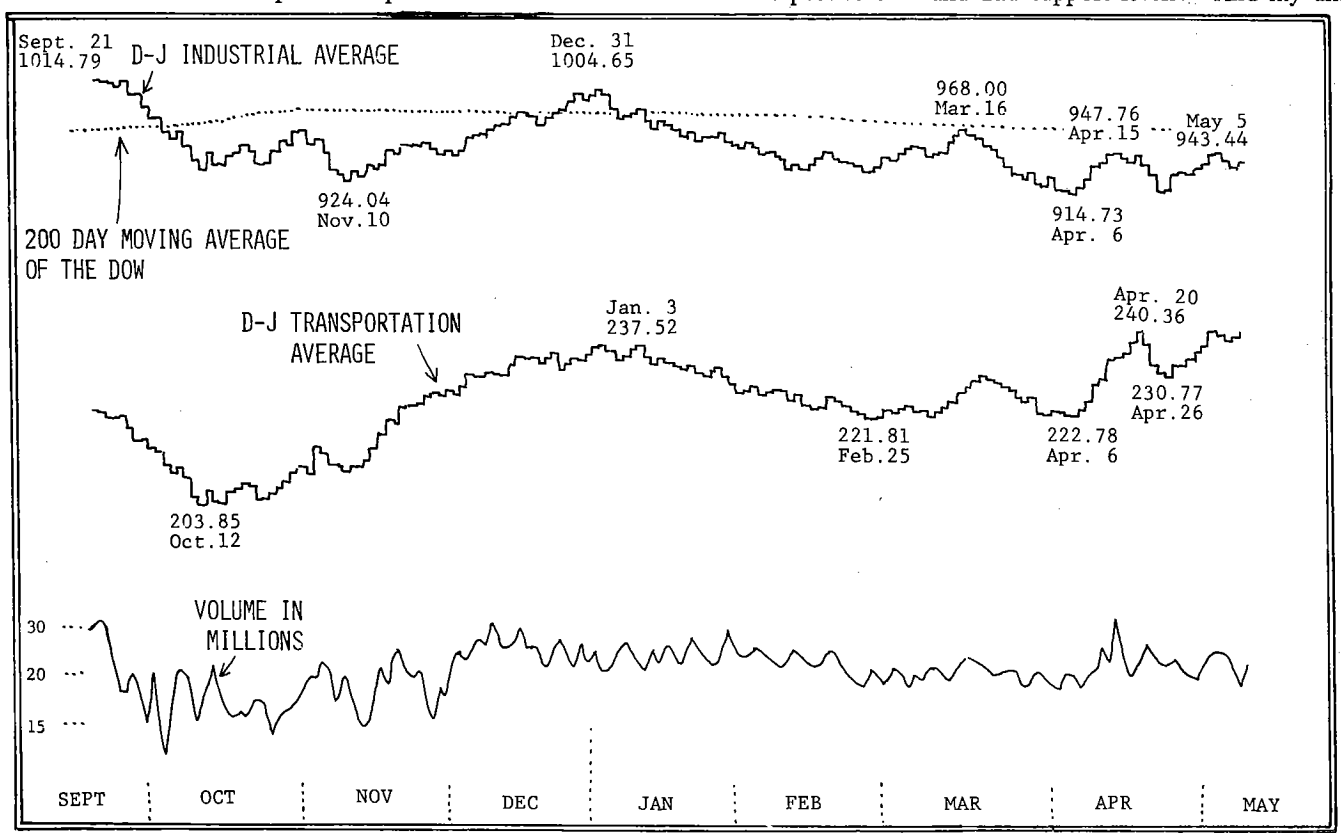
The only problem is that Transports (strong as they've been) comprise **only half the story**. The other half is the Industrial Average. And here we have problems. The Industrial Average hit its bull market high of 1014.79 on September 21. Since then it's formed a long series of *lower tops*—1004.65 on December 31, 968.00 on March 16, 947.76 on April 15. Then on April 25 Industrials hit a 15 month low of 914.60.

From the 914.60 Industrial low, the market rallied, but this latest rally produced "more of the same." Transports equalled their bull market high of 240.36 on May 4, but Industrials faded out on May 5 at 943.44. At the 943.44 peak Industrials were 4 points under their April 15 peak, 25 points under their March 16 high, 61 points under their December 31 high and 71 points under their bull market peak of September 21.

I said it in the last Letter, and I'll say it again now. I don't particularly care for the way this market is acting. The D-J Industrials are too big a segment of the market to ignore, and something is "bothering" those 30 giant industrials. They just don't want to join the rest of the market on the periodic rallies. And that alone is enough to make me cautious. After all, the Industrial reluctance has been going on ever since last September, and that would seem to be saying something rather important about the condition of this market and the nation.

With it all, I continue to feel that we're in a long term bull market. And I have learned that it is wise to give the *prevailing primary trend*, in this case the bull trend, every benefit of the doubt. If we give the bull the benefit, what can we say that's constructive about this market? For one thing, note on the page 1 chart that we have a "double bottom" on Industrials at 914. And we also have a double bottom on Transports at 221. As long as **one or both** of the Averages hold above those levels, the market would appear to be intact and the bull forces would seem to be holding fast. Furthermore, even if the two Averages break those levels (914 and 221) we have the October 203.85 level under the carriers. And 203.85 is a fat 37 points below the current Transport price.

"Alright, Russell," you retort, "I see the picture, but then what's wrong with buying (or holding) a batch of stocks right here—and then hanging on as long as one or both Averages remain above their respective 914 and 221 support levels?" And my answer



is that this is one of those very difficult, very unusual markets in which you've got to follow your instincts and do what makes you feel "comfortable." Personally, I've been more comfortable advising my subscribers to be *very light* in this area.

When an "indicator" as important as the D-J Industrial Average resists on the upside for this long, when Industrials form a series of five declining peaks, I would rather "cool it" and *await developments*, rather than attempt to outguess the market. If Industrials begin to show signs of really getting in gear with Transports on the upside, there will be time enough to increase positions again. If Industrials push above 947.76, then above 968.00, the picture will certainly look more promising, and obviously such action will have to occur if the long-awaited, long-heralded "third advancing leg" of this bull market is to materialize.

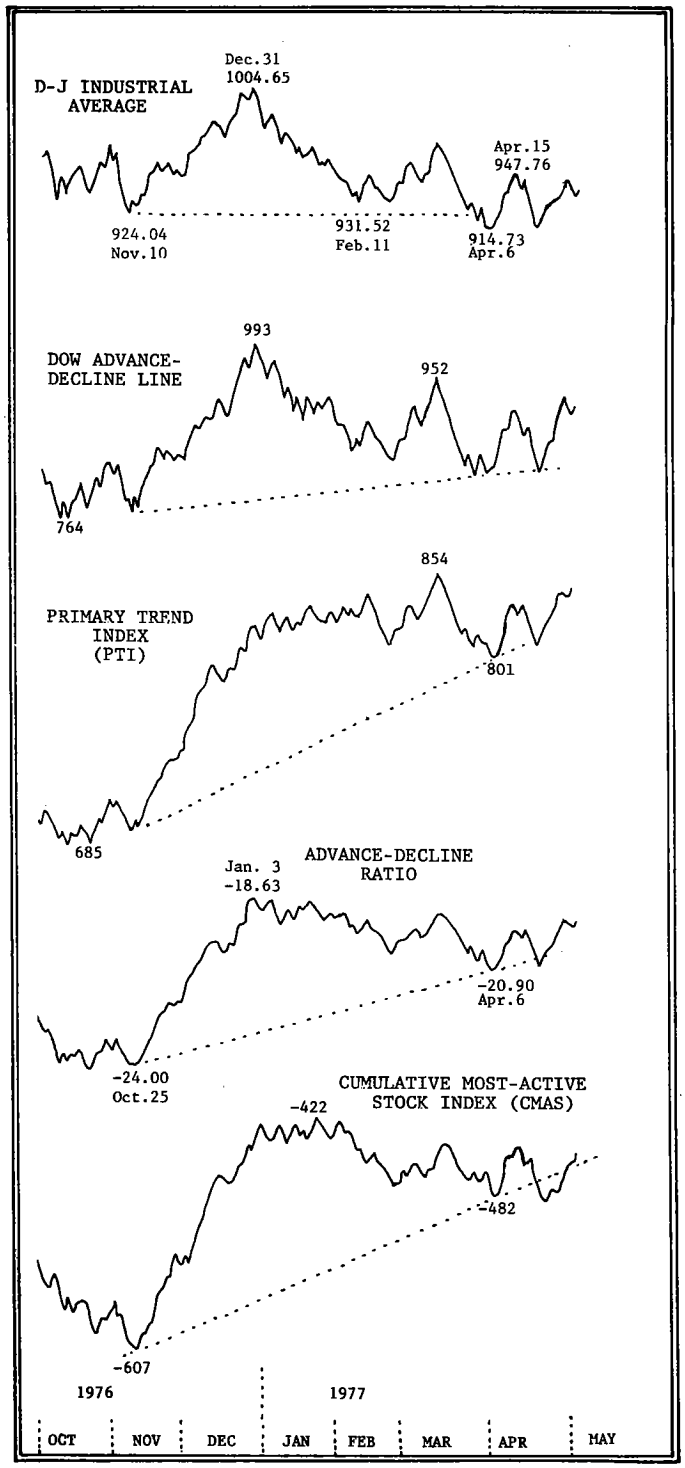
On the other hand, if Industrials, following their eight months' of divergence with Transports, start taking the rest of the market with them on the downside, it will have paid us to have been light on stocks and carefree of heart. My own experience with markets suggests that when there is this much technical trouble in the background, rallies tend to be selective and difficult to make money in. Furthermore, I would say that in the majority of cases where the Averages have diverged over long periods of time, a decline to an **important "oversold condition"** is a pre-requisite prior to the next major advance. Unfortunately, I do not believe that we are in a significant oversold area now–nor have we been since 1977 began.

Conclusion: Barring a thoroughly oversold situation (which has **not** appeared this year), I am skeptical of any worthwhile, really profitable advance occurring from here. It's extremely difficult to make money in a ragged market in which technical forces are at odds with each other, and that's the kind of market we're in now (see Late Notes for more).

I've been asked why I think this market is acting so "spooky," and why the Industrial Average has been so stubbornly reluctant to move higher. One answer may be contained in a letter received today from an obviously very knowledgeable subscriber from Tulsa, Oklahoma. I want to include a quote from that letter by R.J.S. *"As matters now stand, the central planners are backing the disciples of free enterprise off the playing field. The Carter administration means to impose permanent price controls and a stupifying maze of regulations administered by a new family of bureaucrats on the petroleum industry. The coal people, the automobile people, and a few others now finally appear to have reached the realization that if this could happen to oil and gas it not only can but is happening to them as well. Energy cannot be so rigidly controlled by government without restricting the users of energy."*

A second answer is that President Carter is now more of a mystery than when he was running for office. Furthermore, everything I see suggests that Congress is going to sit on its hands until Carter's immense popularity with the American public simmers down. And simmer down it will, particularly when the public sees that Carter's getting little or nothing done. And he'll get nothing done until Congress sees he's ready to "horse-trade." I think they call this kind of thing a vicious circle.

BREADTH INDICES: Once again I am including my daily chart of the Dow and four of the bread of the market indices that I follow. On the latest rally it is notable that the Dow failed



to better its preceding April 15 peak (947.76), although three of the four breadth indices did hurdle their own corresponding April 15 peaks. The Dow A-D line, the PTI and the A-D Ratio all pushed above their April 15 peaks, while the CMAS fizzled.

The picture, therefore, continues to be technically clouded, but sooner or later the Dow and the breadth indices will get together. No market can continue on a schizophrenic course forever (as this one is evidently trying to do!). The persistent weakness in the Dow is as extraordinary as the stubborn strength in the A-D Ratio. The fact is that (as of this writing) the A-D line, which tends to act like an unweighted stock index, is less than one point from its January 3, 1977 bull market high.

In the thirty years that I've been watching and operating in the markets, I don't think I've ever seen a performance like this

one. And, of course, that's what makes Wall Street such a fascinating game. It is also the reason why you'd better have a lot of patience when you're dealing with investments. The stock market isn't going to produce the answers at our convenience. Wall Street makes its move when it's ready, and usually when it's **least convenient** for us.

DOW MOVING AVERAGES: Unfortunately, the Dow isn't just another little technical indicator. The value of the 30 Dow Industrials amounts to about 25% of the value of the entire NYSE listings. So what the 30 Dow Industrials do, or don't do, is important, very important, both from the standpoint of the fundamental business picture and from the standpoint of the Dow Theory.

Since the whole technical market situation may now hinge on the action of the D-J Industrial Average, this seems like an excellent time to review one of my Dow studies. The study entails three moving averages (MA's) of the Dow, a short-term or 4-week MA, an intermediate-term or 13-week MA, and a long-term or 50-week MA of the Dow.

I have a number of simple rules which I use when interpreting the MA's of the Dow. (1) Movements by the 4-week MA above or below the 13-week MA are termed "alerts." These signals come rather frequently and are therefore apt to provide "whip-saw" signals (too many signals). But by construction, an alert-type signal must come before a major signal, so I always watch the alert signals with interest.

(2) Movements by the 13-week MA above or below the 50-week MA are considered to be major "buy" or "sell" signals. These are signals that should always be taken seriously. History shows that the largest part of most advances or declines come **after** a "major signal."

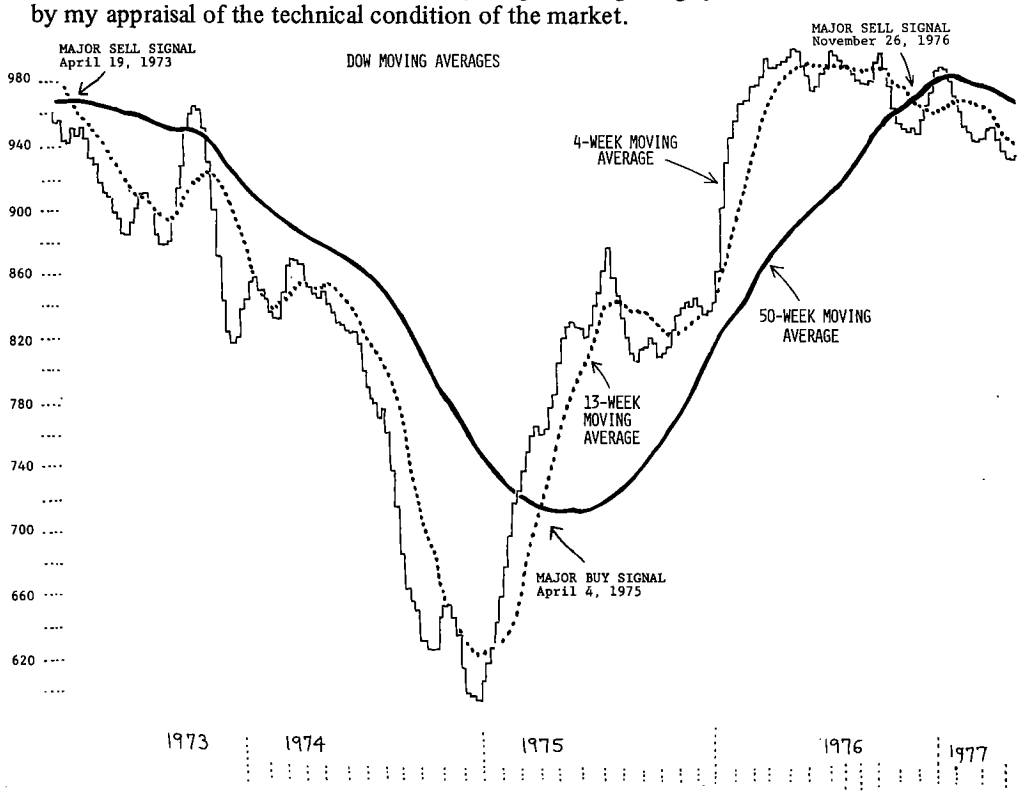
(3) I always give greater credence to a major signal which comes **in the direction of the primary trend.** When a major signal arrives against the primary direction, I cross my fingers and go largely by my appraisal of the technical condition of the market.

The major signals do not come very often. In fact, since 1969 the 13-week MA has crossed above or below the 50-week MA only 7 times, and this amounts to less than 1 signal per year. Of the 7 major signals, 4 were with the primary trend. I have shown the history of the three Dow MA's on the chart going back to 1973. And here we see a few "good" primary signals.

The 13-week MA plunged below the 50-week MA, giving a major bearish signal on April 19, 1973. Those who obeyed that signal avoided the worst market crash since 1937. The signal came within a primary bear market, a bear market that finally ended in December, 1974. A major bullish signal occurred on April 4, 1975. Although I had recommended buying well ahead of the signal, the April 4 signal nevertheless confirmed our bullish positions. This signal was followed by substantially higher prices in most stocks.

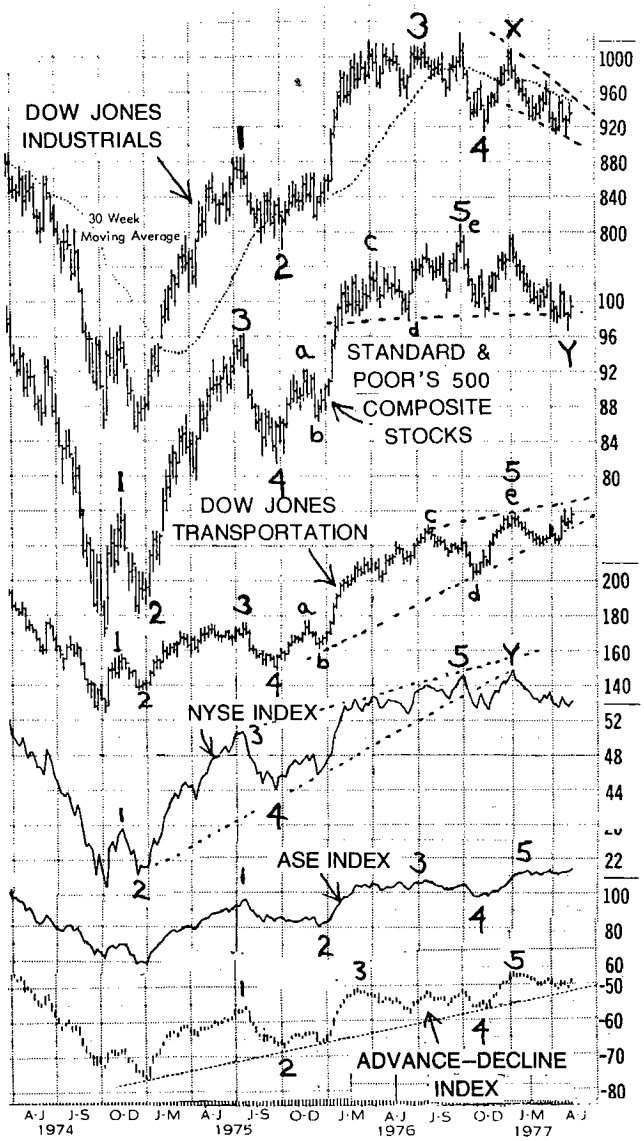
On November 26, 1976, the 13-week MA sank below the 50-week MA, and this action was discussed in Letters written at that time. I stated that this bearish signal had occurred against the primary trend and that I was therefore not ready to "clean out" (as would be the case if the signal had occurred during a primary bear market). Nevertheless, the signal has been a cause for concern, and I have watched the action of the three MA's carefully since November 26.

I have my attention particularly rivited to the 13-week MA because that's the intermediate one, and the one that really gives the major signals (by crossing above or below the 50-week MA). The 13-week hit a low of 959 on December 23, 1976, then rallied as you can see on the chart. Last week the 13-week MA was flattening its rate of descent and moving sideways at a level of approximately 939. Note that over the last few months the bearish *spread* between the 50 and 13-week MA's was widening. But this spread may now be holding or even decreasing. If the spread begins to decrease it will, of course, be a hopeful sign, since such action must come prior to an ultimate bullish crossing (i.e., a crossing of the 13-week MA above the 50-week MA).



Conclusion: Even though I give the primary (bull) trend the benefit of the doubt, this is one of the studies which I use for "insurance" against the possibility of a potential severe secondary reaction occurring. The study of the MA's has provided valuable insurance in the past, and it is always prudent to be on guard following a major sell signal of the type which occurred last November.

Hopefully, the sensitive 4-week MA will climb above the 13-week MA and we will get a bullish re-crossing without a market plunge to a heavily oversold area (with the Dow perhaps in the mid to high 800's). To do this, the Dow is going to have to hold **above 940** and then advance from that level (such action would serve to advance the 4-week MA from its current level). (I use the Dow close on Thursdays when computing the MA).



MIXED RHYTHMS: I am including a composite chart of a number of important market averages and indices. I have been studying this chart for some weeks now, trying to decipher the "message" in those various indicators. What we see here is a very mixed but fascinating picture, and I want to review the picture now.

The chart is through courtesy of *CMI*, Camano Island, Wash. 98282. All graphs are drawn on a weekly basis. At the top of the chart we have the Dow Industrial Average. As I see it, the Dow has moved up during this market in a series of three waves (marked 1-2-3 on the chart). A second corrective wave ended at 4, but the ensuing rise ended in failure at point X. Since then the Dow has drifted off in what I would term a "descending wedge." As a rule, the price movement will break out of a descending wedge on the upside. If this comes to pass, the Dow should push up through the 950-60 area. But the failure at X implies weakness, and I am doubtful as to whether the Dow is capable at this time of making a new bull market high above the 1014.79 high of September 21, 1976.

The S&P 500 seems to be in a different cycle than the Dow. I count three completed legs up to point 3 in mid-1975, a correction to point 4, and then an a-b-c-d-e to point 5 in late 1976. But the whole pattern in the 500 since late-1975 seems to have taken the form of a "head-and-shoulders" top. Two weeks ago the support was broken at Y on the chart. This would seem to indicate real weakness in the 500. I see the S&P 500 as a laggard now, unable to keep up with the Dow on any rise from here.

The D-J Transportation Average has been the "powerhouse" of this bull market. I count a completed 5 legs up from the October, 1974 low, with the 5 leg "extending" as shown on the chart. The "true top" for the Transports probably came at point 5 (e) on the chart, and the recent action appears to be a possible "false top" or "blow-off" move. Note that the Transports have formed a "rising wedge" pattern, just the opposite of the pattern which shows on the Industrial Average. Any move above the upper rising trendline on Transports should lead to exhaustion.

I see the NYSE Index as also having completed a 5 leg rise at the September, 1976 peak (marked 5 on the chart). At the January peak (y) I think we saw a "failure," and this led to the most recent weakness. As in the case with the S&P 500, I feel that the NYSE Index is not apt to make a new high from here.

The patterns of the AMEX (ASE), and the Advance-Decline Ratio (NYSE) are all remarkably similar. I count completed 1-2-3-4-5 patterns in both of these. In each case, the price movement is very close to the rising trendlines, and I would say that it would be most important that these trendlines not be violated.

Conclusion: After 15 months of generally sideways movement, the various market averages and indices have moved out of synchronization to a remarkable degree. This suggests to me that any rise from here should be ragged and quite selective, unlike, for instance, the rises of early 1975 and early 1976. When a market becomes this ragged, I usually prefer to leave it to the floor traders and the speculatively inclined.

I don't really feel that the corrective forces have had their full say, so far, in the long, tedious slide from the 1976 peak. For this reason, if the market elects to push up from here, I would prefer that my subscribers use the opportunity to lighten up and lighten up substantially. On the other hand, if the market were to embark on another move down, I believe we could see the establishment of the first good bottom since late-1975. In that case, I would advise establishing much larger stock positions.

ALTERNATIVES: I often get letters from subscribers asking for my opinion regarding "real money" and "alternatives to paper money." I don't want to go into the whole inflation-deflation argument at this time, but the fact is that there are a lot of intelligent people who (for a variety of reasons) want to hold some portion of their assets in what I term "non-dollar money."

The discussions of *dollar alternatives* are endless, and some services devote themselves to this subject almost exclusively. At any rate, I've done a good deal of thinking in this area. Here are some of my conclusions.

Gold and silver are the universally-accepted forms of real money. Many claim that **gold alone** is the only monetary metal. Silver has done well during this inflation era, but silver has a history of collapsing during deflation. In 1932, silver sold for 23 cents an ounce. Silver (and I might add platinum) are subject to the laws of consumption (particularly industrial usage), and there's no telling where silver would go in a deflationary depression. One way around the silver problem would be to hold silver coinage, which would have (theoretically) no inflationary ceiling, but would have a floor based on the face value of the coins. This floor, however, might be little consolation to the man who buys a bag of silver (face value $1000) today for $3390, only to sell it at a depression face-value price of $1000.

A second area of real, widely-accepted value might be **rare coins**, collector coins, or valuable gold coins. These would have the advantage of being immune to confiscation (as would silver and platinum) in case of a world crisis. "Could gold be confiscated

again?" I am asked. My answer is, "Of course it could." We've already had the precedent. If and when the next world crisis hits, the governments will do whatever they deem necessary for survival. Confiscation of gold, or forbidding gold transactions could be part of this procedure. The US Government might state that it is "unfair" for a certain segment of the population to be able to obtain supplies and comforts just because they happen to possess gold. And that would be that.

A third alternative to paper money is one that I have not really discussed before. This area has the distinction of being actually encouraged by all the governments of the world. The item is **postage stamps**. Few people know the following, and I think it is valuable information.

(1) The US Government will lay out about $8 million this year (via Young & Rubicam) to advertise and encourage the collecting of postage stamps. The reason: stamps are a source of revenue for the Government.

(2) There are approximately 50 million stamp collectors throughout the world, about 16 million in the US alone. The American Stamp Dealers Assoc. has almost 1000 members. The American Philatelic Society has about 40,000 members. There is a public auction of stamps held every day (on average) somewhere in the world.

(3) With stamp dealers in almost every town (of any size) in the US, stamps enjoy an extraordinarily *wide market*. Many reference catalogues of stamp *prices* are published (local libraries usually carry them). Stamp magazines publish prices weekly and monthly. Stamp collecting is now the **world's biggest hobby**.

(4) In my opinion, stamps have now literally become an alternate form of money. Stamps have the twin advantages of being totally portable (you can carry $10 million worth of stamps in a packet) and probably immune from Government confiscation. Stamps have the disadvantages of being open to counterfeitting, of being easily destroyed or damaged, and of being subject to a wide bid and asked quote system.

This wide spread in the bid and asked can be a big problem if you do not buy the right stamps, if you buy stamps from an unreliable dealer or if you have to sell your new purchases within a short period of time.

The best approach, assuming you wish to hold postage stamps as an investment is (a) to view your stamps as long-term investments, and (b) to purchase your stamps through a known, reputable, honest agent or dealer who knows your needs, knows what you want to do, and is willing to work with you. I can not emphasize this too strongly.

I might add that I have been collecting stamps for the past 15 years, and I happen to like US nineteenth century stamps. But there are many good categories, and these can be discussed with a dealer or agent. As a final warning, I want to say that like the stock market, like the bond market, like housing, horses, or anything else, you will have to do some work in the field of stamps before you can hope to be successful.

I want to close this section with a quote from the excellent *Inflation Survival Letter*, PO Box 2599, Landover Hills, MD 20784. *"Few epochs qualify as more bleak than the Great Depression of the thirties. In this context the Arthur Hind estate was liquidated. The majority of his holdings (stocks, bonds, and real estate) had to be sold for whatever the market would bear, and the executors winced when much of this was liquidated for as little as one-tenth of the original cost. Typical of uninformed laymen, the executors thought so little of Hind's massive stamp collection that they didn't bother to list it in their original estimate of Hind's total assets. They were, however, eventually persuaded to put the collection up for auction sale. By anyone's estimate, the most that could be hoped for under such circumstances was that the stamps might recoup a reasonable portion of their initial cost. The result: the trustees were flabbergasted to learn that Hind's lightly regarded stamp collection garnered 600,000 hard-to-come-by depression dollars.*

Not only did many individual stamps return many times their cost, but this sum accounted for more than half of the gross realization of his entire combined assets."

END OF ONE ERA, BUT . . . I have felt all along that the great 1973-74 crash heralded the end of one era, but I don't believe we really see the emerging new era–yet. The whole bear market of 1966-74 was, in many ways, the counter-part (as far as Wall Street was concerned) of 1929-32. During 1966-74 we saw the Advance-Decline Ratio collapse to its levels of the 1940's, and we saw the broad, unweighted averages lose up to 87% of their values. Now I know as well as anyone else that no two periods of stock market history are exactly alike. But I feel that certain valid comparisons can be made regarding the 1929-32 and 1968-74 situations.

When the great bull market crashed in 1929, it marked the end of the "Jazz Age," the end of the fabulous "New Era," and the end of the whole zany, carefree decade of the '20's. The 1930's brought in the Great Depression, the breadline, the big-time gangsters, the Hooverville's, the blues, the dust bowl and "Brother Can You Spare a Dime?" But there were also some plusses. For instance, there never was any question during the '30's about the value of the dollar. During the '30's there was a certain amount of stability based on the fact that if a man could accumulate dollars, he had wealth and purchasing power; he had something of indisputable value. True, the Depression years changed almost all the other values of the Jazz age, but there was a dramatic **moral base** in the fact that if you worked (assuming you could find work), it meant honest dollars, and the man with dollars was king.

My own first job as a teen-ager came in 1939 when I worked for the now-defunct Postal Telgraph company. My work was delivering telegrams, and my pay averaged about $1 a day. But it was work, and I did it because I couldn't find anything else. The following year I struck it rich. I worked for G.W. Button Company in NYC, a shipping company. It was a union job loading trucks at $18.75 per week, including half-days Saturdays. That was the last job I had before my freshman year in Rutgers. Then came the War, and the beginning of (1) giant US deficits, (2) massive inflation, and (3) my career as a bombardier with the Army Air Force. So much for that.

Next, we come to the crash of the early-1970's. My friend Jim Dines, talks about (and writes about) "The Invisible Crash." And by that Dines means the crash in the value of the purchasing power of our currency. The fact is that the persistent and relentless rise in debt since the 1940's has meant that holders of dollars have seen the purchasing power of their capital literally fall apart. Thus, for instance, the school teacher who seemed "set for life" because she had a $20,000 insurance policy, has seen her island of safety erode away in a frightful way. She has been witness to a crash that was invisible but one that has destroyed her assets as surely as 1929 destroyed the stock market.

With the 35 year smash in the value of the US dollar has come a collapse in many other American values as well. The "New Morality" is, in a sense, a lack of morality, and a long string of freshly-minted words have been invented to describe the syndromes of the post World War II era. Thus we know about beatnicks, jet-setters, hippies, dopers, rock, coke, pot, hype, john, gay, freak, and maybe more than anything else we know about rip-off and inflation.

So now, as the Dow fluctuates in its seemingly endless journey between 900 and 1000, I wonder about the full meaning of the crash of the 1970's. I wonder if that crash didn't signal the

end of the post World War II era, and I happen to think that it did. And I also happen to think that a new era has been ushered in–a new era that we can not yet describe, one that is not yet clear, and certainly one that we do not yet understand.

However, I do have some guesses as to what the new age of the late 1970's and beyond could be like. And I want to offer those ideas to my subscribers now. (1) I think the new age is going to be alot less youth-oriented. Demographers believe that between now and 1990, the 14 to 24 age group will decline 14% in this country. That will mean less crime, less "craziness," less violence, less accent on youth.

(2) I believe that there will be much more emphasis on spiritual values and much less emphasis on material values. This will come about because there will simply be less material and "things" available, and because there will be a reaction against the super-materialism of the pre-1970's.

(3) I believe that sometime between now and the early 1980's we are going to witness the worst financial crisis in modern world history. I say that because compounding debt is a monster, and the world is getting near the end of the line on compounding its debts and attempting to print its way out of the problem.

(4) I believe that there will be a coming great upheaval in the Communist world as many (if not most) of the ills of the West come to roost in the Communist empire. This situation, by the way, will result in instability, and it will not be bullish for the West.

(5) I believe that the "wars" of the future will be generally within nations rather than between nations. This will be a result of economic collapses within various countries and the resultant battles for power.

GOLD, SILVER: Nothing new here since my last report. Except that it is becomingly patently clear that most commodities have now topped out and are heading down. This is not inflationary. Another straw in the wind is worth mentioning. The "savings rate" in the US (the percentage of after-tax income not spent) has dropped to 5%, the lowest level in the past 8 years. This would seem to indicate that consumers as a group have "shot their wad" on the spending front. Which may well account for the big slide in the equities of retail stores, retail chains, variety chains, as described in the last Letter. This too is not inflationary. If the consumer is pulling in his horns, it would be more deflationary than anything else.

All of which might explain why gold is milling about below 150. Now mind you, I still think that subscribers could own 5% up to even 10% (of assets) in Krugerrands. There's nothing wrong with that kind of hedge in this unstable world. But I wouldn't hold gold as an inflation hedge. I'd hold it because it's real money, not a "promise to pay."

As I explained in the earlier postage stamp section, people around the world are trusting pieces of paper that say that "you own" this or that less and less. And they are trusting things, diamonds, stamps, coins, houses, works of art, more and more. Gold is such an item. You can own it in the full sense of the word in contrast to a stock certificate that only "says" you own say a fraction of General Motors. After all, a dollar used to be a call on 1/35th of an ounce of gold. But 1/35th of an ounce of gold is now worth $4.20, and you can't buy $4.20 worth of gold today with a dollar. So people learn what confiscation is all about, and they get shy about promises. A Krugerrand in your pocket isn't a promise, it's the real thing. Which is why it isn't a bad idea to own a few.

LATE MARKET NOTES: There is no group of stocks in the world that receive more study, more analysis, more thought, than the *D-J Industrial Average*, an average composed of 30 US corporate giants. Almost anything that occurs in the world of business and finance affects one or more of the Dow stocks. Almost anything these companies do affects the world of business and finance. That's how important those 30 companies are.

Now the Dow has "something" on its mind. It sure does. I don't know what's bothering the Dow, and you don't either. But "everybody's information taken together" knows, and that information distills down to the daily price action as seen on the page 1 chart of this report. Starting with September 21, the Dow has declined steadily, and in so doing it has formed five descending peaks. The fact is that the Dow has not had a decent rally since September. By a decent rally I mean a rally that has taken the Dow above a preceding peak.

With Transports strong, with Transports at new bull market highs, the Dow won't even push above a single preceding peak! Now I've been watching this market for thirty years, and I've seen a lot of weakness. But if the Dow can't push above a single preceding peak in eight months of trying (with a strong Transport and Utility Average all the while), then brother, that's real Dow weakness, and I don't care what anybody says.

It's possible, very possible, that what we've seen in 1977 is simply "base building," a shaking out of the hot-shots and the over-optimistic and the amateurs and the public. But it's also possible that there's something seriously wrong with the business picture. Personally, I don't know (only the geniuses and liars know). But this Dow Industrial action has been bothering me, and that's the reason I wrote the last two reports the way I did ("sell to the comfort level, " "cut way down on common stock holdings").

I feel that time is running out on this market's meandering and flip-flopping about. We're getting near the point where the Averages (and the market) are probably going to get together one way or the other. The A-D has pushed up to within a point of its high, the PTI has pushed close to its high, Transports have risen to a new bull market high, Utilities on May 3 came within 2 points of their January 3 bull market high, but the Dow has said "Forget it!" SO, my own interpretation is this–"Unless the Dow Industrials can start to push above previous peaks, starting with 943.44 (May 5) and 947.76 (April 15), I'm sticking to my policy which states, "We're pretty much on the sidelines as far as common stocks are concerned. We're paying the cost of insurance against a possible downside swoon."

As I've said before, this market has not produced a solid, true oversold bottom all year. I believe we're going to need a fully sold-out market before we can get a profitable worthwhile, broad advance. I don't trust any advance that wands its way **without the Dow** Industrial Average. And that's what we've had so far throughout 1977.

Question: Russell, what happens if this market heads up from here, and the Dow starts pushing above its preceding peaks?

Answer: If the Dow betters 943.44, then 947.76, then 968.00 etc. I'm going to turn as positive on the near-term picture as I am skeptical at the moment. But Industrials haven't shown us anything yet, so let's just sit tight and use patience. The market will be there, and there'll be no shortage of stocks to buy.

NEXT MAILING: May 25th